

**MACOMB COUNTY, MICHIGAN**  
**Management's Discussion and Analysis**  
**Required Supplemental Information**

As management of the County, we offer this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2004. Readers are encouraged to read it in conjunction with the letter of transmittal, which is located at the beginning of this report, and the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of the County exceeded its liabilities by \$349.9 million at year- end.
- The net assets of the County increased by \$29.2 million in fiscal 2004.
- The General Fund reported a loss of \$2.8 million for the year. Unreserved fund balance was \$62.4 million, or 15.1% of the total 2005 County operating budget. Total fund balance was \$62.7 million.
- The County's credit rating with Standard & Poors was upgraded from AA+ to AAA, the highest rating awarded by Standard & Poors. The County also maintained its Aaa rating with Moody's Investor Service.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements: 1) government-wide financial statements, which focus on the County as a whole, 2) fund financial statements, which provide a more detailed view of the County's major funds and 3) notes to the financial statements, which provide additional information that is essential to gain a full understanding of the data presented in the financial statements.

**Government-wide financial statements** consist of the *Statement of Net Assets* and the *Statement of Activities* and provide readers with a broad overview of the activities of the County as a whole. One of the more important questions citizens and other readers of the financial statements often ask is "Is the County as a whole better or worse off this year than it was a year ago?" In other words, did the financial condition of the County improve or decline over the course of the past year. The government-wide statements report information in a manner that is intended to help answer these questions.

The government-wide statements are prepared using the full accrual basis of accounting, which is similar to that employed by businesses in the private sector.

The *Statement of Net Assets* presents information on all of the assets and liabilities of the County, with the difference between the two reported as *net assets*. Net assets can be thought of as one way of measuring the financial strength of the County. Increases or decreases in net assets over time may serve as a useful indicator of whether the financial condition of the County is improving or deteriorating.

Non-financial factors such as changes in the property tax base, population and condition of roads and bridges must also be considered when assessing the financial condition of the County.

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The *Statement of Activities* presents information showing how the net assets of the County have changed over the course of the most recent fiscal year. All changes in net assets are recognized as soon as the underlying transactions take place, regardless of the timing of the related cash flows. As a result, certain revenues and expenses reported in these statements are related to items that will only result in cash flows in future years. Examples of such items are uncollected property taxes and earned but unused sick and vacation leave.

The government-wide financial statements segregate the activities of the County into three categories: 1) governmental activities, business-type activities and discretely presented component units. The basic services of the County are classified as **governmental activities** and are financed primarily through property taxes, user fees and intergovernmental revenues. Functions reported in this category include general government, legislative, health and welfare, law enforcement and judicial. **Business-type activities** operate like private businesses and are intended to recover the majority of their costs through user fees. The business-type activities of the County include the Delinquent Tax Revolving Funds, Martha T. Berry Medical Care Facility, Community Mental Health and the Freedom Hill Park. **Discretely presented component units** are legally separate entities, the majority of whose governing bodies are appointed by the Board of Commissioners and for which the County is financially accountable. The County reports the Road Commission, Macomb/St. Clair Workforce Development Board, the Public Works Commission and the County of Macomb Hospital Finance Authority as discretely presented component units.

The government-wide financial statements begin on page B-1 of this report.

**Fund financial statements** are separate groupings of related accounts that are used to maintain control over resources that have been segregated for specific purposes. Each fund of the County is considered a separate accounting entity for which a self-balancing set of accounts is maintained. Certain funds are established in accordance with State law while others are required by bond or grant agreements or are established at the discretion of management to enable it to more easily manage and report on the activities of the many programs of the County. All the funds of the County can be divided into one of three categories: governmental, proprietary or fiduciary.

**Governmental funds** are used to account for most of the basic services provided by the County and report essentially the same functions as those reported as governmental activities in the government-wide financial statements. Governmental funds are accounted for using the *modified accrual* basis of accounting, which focuses on the short-term inflows and outflows of cash and other financial assets that can be readily converted into cash and the balances of them available for spending at year-end. Because the focus of the governmental fund financial statements is narrower in scope than that of the government-wide financial statements, reconciliations are provided in both the governmental fund balance sheet and operating statement to help the reader better understand the relationship between the two.

All of the governmental funds of the County are categorized as either major or nonmajor for presentation in the financial statements. The purpose of such segregation is to focus the attention of the reader on the more significant funds of the County. A fund is considered major if its assets, liabilities, revenues or expenditures meet or exceed certain percentage thresholds in relation to all governmental funds taken as whole. The thresholds used to determine a fund's status as major or nonmajor are set forth in GASB Statement No. 34.

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Information regarding major funds is presented separately in the basic financial statements while data for all nonmajor funds is combined into a single, aggregated presentation. The General Fund and the Revenue Sharing Reserve Fund are the only major governmental funds of the County. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds** are classified as either enterprise funds or internal service funds and are accounted for using the full accrual basis of accounting. *Enterprise funds* are used to report the same functions as those presented as business-type activities in the government-wide financial statements and include the Delinquent Tax Revolving Fund, Community Mental Health, Freedom Hill Park and the Martha T. Berry Medical Care Facility. *Internal service funds*, on the other hand, are used to centrally account for services provided to other County departments and include phone services, fleet management, copier replacement, workers' compensation and general liability insurance and compensated absences. Because the internal service funds predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Data regarding the internal service funds has been combined into a single, aggregated presentation in the basic financial statements. Information regarding the individual internal service funds is provided in the form of combining statements elsewhere in this report.

The proprietary fund financial statements begin on page B-8 of this report.

**Fiduciary funds** are used to account for resources held by the County on behalf of others, including those of the Employee Retirement System and the Retiree Health Care Trust Fund as well as other agency monies such as state education tax collections from local units of government. The activities of the fiduciary funds are presented separately in this report but are not reflected in the government-wide financial statements because the resources of those funds are not available to support the operations of the County. Fiduciary funds are accounted for using the full accrual basis of accounting.

The fiduciary fund financial statements begin on page B-14 of this report.

**Notes to the Financial Statements** provide additional information that is essential to gain a full understanding of the data presented in both the government-wide and fund financial statements and begin on page B-19 of this report.

**Required Supplementary Information** is presented following the notes to the financial statements and includes schedules regarding the progress of the County in funding its pension obligations and a budget to actual comparison for the major governmental funds of the County.

Required supplementary information begins on page C-1 of this report.

**Combining and individual funds statements** of the nonmajor funds of the County are presented immediately following the required supplementary information and begin on page D-1 of this report.

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**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

The financial analysis of the County as a whole focuses on the net assets and changes in net assets of the governmental and business-type activities of the County. As noted earlier, net assets and changes in net assets may serve as one indicator of the financial health of the County. The assets of the County exceeded its liabilities by \$349.9 million at December 31, 2004 and increased by approximately \$29.2 million for the year then ended.

**Macomb County Primary Government Net Assets**

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 274,379,310	\$ 284,132,168	\$ 100,330,992	\$ 116,325,813	\$ 374,710,302	\$ 400,457,981
Capital assets	157,536,562	136,949,617	2,556,498	2,573,755	160,093,060	139,523,372
<b>Total assets</b>	<b>431,915,872</b>	<b>421,081,785</b>	<b>102,887,490</b>	<b>118,899,568</b>	<b>534,803,362</b>	<b>539,981,353</b>
Current liabilities	97,469,514	132,502,527	8,818,072	23,245,827	106,287,586	155,748,354
Long-term liabilities	78,605,406	63,491,765	-	-	78,605,406	63,491,765
<b>Total liabilities</b>	<b>176,074,920</b>	<b>195,994,292</b>	<b>8,818,072</b>	<b>23,245,827</b>	<b>184,892,992</b>	<b>219,240,119</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	103,036,562	84,829,617	2,556,498	2,573,755	105,593,060	87,403,372
Restricted	64,780,560	27,338,770	6,354,358	6,235,869	71,134,918	33,574,639
Unrestricted	88,023,830	112,919,106	85,158,562	86,844,117	173,182,392	199,763,223
<b>Total Net Assets</b>	<b>\$ 255,840,952</b>	<b>\$ 225,087,493</b>	<b>\$ 94,069,418</b>	<b>\$ 95,653,741</b>	<b>\$ 349,910,370</b>	<b>\$ 320,741,234</b>

Approximately \$105.6 million, or 30.2% of the County's net assets represents its investment in capital assets, net of any outstanding debt used to acquire those assets. These assets are used by the County to provide services to the public; consequently, they are not available for future spending. Although the County's investment in its capital assets is reported net of any related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the assets themselves cannot be used to liquidate the outstanding debt obligations. Another \$71.1 million, or 20.3%, of the County's net assets represents resources that are subject to external restrictions regarding their use. Assets included in this category include bond proceeds that can only be utilized on the projects for which they were issued as well as cash and investments restricted for the repayment of outstanding debt. The remaining balance of the County's net assets are unrestricted and may be used to meet the County's ongoing obligations. Positive balances in all three categories are reported at December 31, 2004.

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As indicated in the following schedule, the net assets of the County increased by \$29.2 million for the year ended December 31, 2004. The components of this change were an increase of \$30.8 million in governmental activities and a decrease of \$1.6 million in business-type activities. The components of these changes are discussed in the following section.

**Macomb County Primary Government Changes in Net Assets**

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenue						
Charges for services	\$ 46,441,446	\$ 46,850,539	\$ 118,681,565	\$ 115,671,590	\$ 165,123,011	\$ 162,522,129
Operating grants and contributions	50,190,070	43,500,252	35,802,880	35,906,815	85,992,950	79,407,067
Capital grants and contributions	3,197,973	232,167	-	-	3,197,973	232,167
General revenue						
Property taxes	145,946,433	104,046,884	-	-	145,946,433	104,046,884
Intergovernmental revenues	8,260,654	16,351,125	-	-	8,260,654	16,351,125
Investment income	3,432,645	4,151,847	1,052,437	1,106,311	4,485,082	5,258,158
Loss on sale of assets	-	(3,148)	-	-	-	(3,148)
	<u>257,469,221</u>	<u>215,129,666</u>	<u>155,536,882</u>	<u>152,684,716</u>	<u>413,006,103</u>	<u>367,814,382</u>
<b>Expenses</b>						
Legislative	1,958,277	1,833,491	-	-	1,958,277	1,833,491
Judicial	32,738,381	32,074,335	-	-	32,738,381	32,074,335
General government	47,040,467	42,674,817	865,989	546,457	47,906,456	43,221,274
Public safety	60,512,543	53,911,763	-	-	60,512,543	53,911,763
Public works	2,133,523	3,656,565	-	-	2,133,523	3,656,565
Health and welfare	71,578,296	61,775,792	157,780,177	154,091,761	229,358,473	215,867,553
Recreation and culture	2,982,626	3,502,761	1,130,182	1,063,041	4,112,808	4,565,802
Other activities	2,374,350	2,156,744	-	-	2,374,350	2,156,744
Interest and fees on long-term debt	3,423,082	2,896,984	-	-	3,423,082	2,896,984
	<u>224,741,545</u>	<u>204,483,252</u>	<u>159,776,348</u>	<u>155,701,259</u>	<u>384,517,893</u>	<u>360,184,511</u>
Increase (decrease) in net assets before transfers	32,727,676	10,646,414	(4,239,466)	(3,016,543)	28,488,210	7,629,871
Net transfers	(1,974,217)	825,039	2,655,143	(1,184,679)	680,926	(359,640)
Increase (decrease) in net assets	30,753,459	11,471,453	(1,584,323)	(4,201,222)	29,169,136	7,270,231
Net assets, beginning of year	<u>225,087,493</u>	<u>213,616,040</u>	<u>95,653,741</u>	<u>99,854,963</u>	<u>320,741,234</u>	<u>313,471,003</u>
Net assets, end of year	<u>\$ 255,840,952</u>	<u>\$ 225,087,493</u>	<u>\$ 94,069,418</u>	<u>\$ 95,653,741</u>	<u>\$ 349,910,370</u>	<u>\$ 320,741,234</u>

**Governmental activities.** Key components of the \$30.8 million increase in the net assets of the County's governmental activities in 2004 are as follows:

- Property tax revenue increased by \$41.9 million, of which \$37.7 million was due to the enactment of Public Act 357, which accelerated the revenue recognition and collection of property taxes to serve as a funding mechanism to replace State Revenue Sharing payments, which were discontinued during 2004. The remaining \$4.2 million increase was due to increases in property values throughout the County. The increase in property values is attributable primarily to increased construction of residential homes during the year.

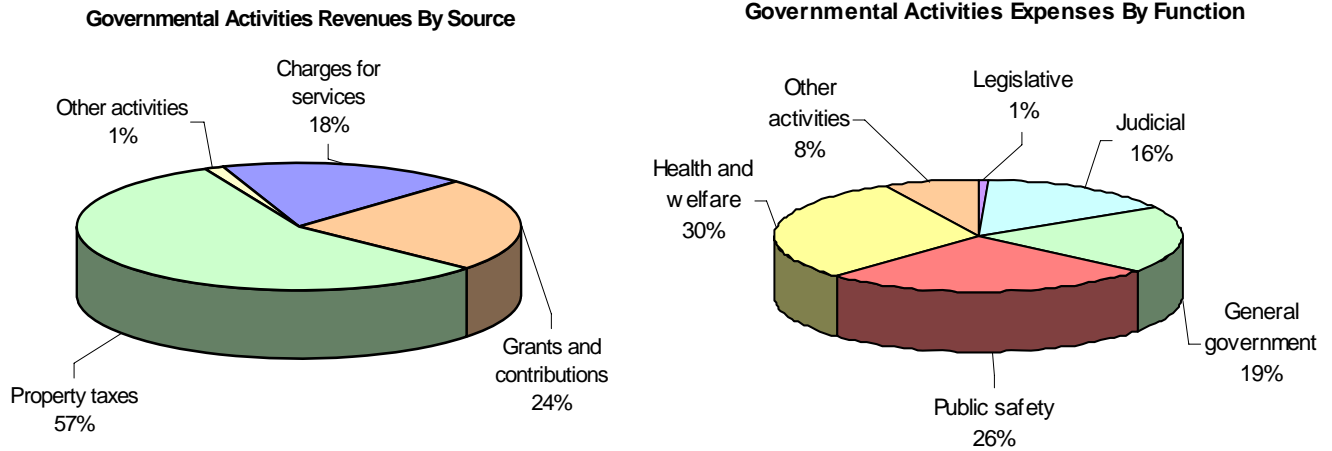
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Pursuant to Public Act 357, the collection of property taxes will be accelerated over the course of three years, whereby the County will levy 100% of its property taxes in July rather than December. This gradual shift will take place as follows: 1/3 of the 2005 County levy will be made in July 2005, 2/3 of the 2006 levy will be made in July 2006 and 100% of the 2007 levy will be made in July 2007. Each year thereafter, 100% of the levy will be made in July. Beginning in 2004, three annual installments, each equal to 1/3 of the December 2004 property tax levy, will be recognized as revenue and placed in a restricted fund known as the Revenue Sharing Reserve Fund. The Revenue Sharing Reserve Fund will transfer monies to the General Fund each year beginning in 2004 until its fund balance is exhausted. The amount transferred each year will be determined by the State of Michigan and will be approximately the amount that would have been distributed by the State in fiscal 2004 if revenue sharing payments had not been discontinued. The amount placed in the Revenue Sharing Reserve Fund in 2004 was \$37.7 million, of which \$9.0 million was subsequently transferred to the General Fund.

- Capital grants and contributions increased by \$3.0 million as a result of grants received for the development of the Macomb Orchard Trail.
- Intergovernmental revenues decreased by \$8.1 million, due to a \$8.1 million reduction in revenue sharing payments from the State of Michigan.
- General government expenditures increased \$4.4 million, or 10.0%, attributed primarily to salaries and wages.
- Health and welfare expenses increased by \$9.8 million compared to the prior year, of which \$3.8 million, or 21.0%, was experienced in the Child Care Fund. Of this increase, \$3.5 million was caused by an increase in the amount spent to house juveniles in outside facilities. The increase was driven by two factors: an increase in the number of juveniles in the justice system and the construction of the new Juvenile Justice Center. The number of outside placements is expected to decrease going forward now that the new facility is operational. The remaining increase of \$6.3 million, or 10.1%, is primarily attributable to increases in salaries and wages and employee fringe benefits.

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The components of the County's governmental revenues and expenditures are presented below.



**Business-type activities.** The net assets of the County's business-type activities decreased approximately \$1.6 million during the year. The majority of this decrease is attributable to a \$1.1 million deficit in the Delinquent Tax Revolving Funds and a \$.6 deficit at the Martha T. Berry Medical Care Facility. The deficit in the Delinquent Tax Revolving Fund is primarily the result of a decrease in funding to County governmental activities. The deficit at the Martha T. Berry Medical Care Facility resulted from decreases in Medicare and Medicaid revenue, offset by an increase in funding from the General Fund.

**FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR FUNDS**

*Governmental funds.* As previously mentioned, the focus of governmental funds is to provide information on near-term inflows, outflows and remaining balances of spendable resources. Such information is useful in assessing the County's ability to meet its current financing requirements. The fund balance of governmental funds is segregated into one of three categories: reserved, designated and unreserved. Reserved fund balance represents that portion of the net assets that may only be spent for specific purposes and are not available for new spending. Examples of fund balance reserves include amounts required to pay debt service, bond proceeds that may only be spent on projects for which the bonds were issued and amounts required to meet long-term contractual commitments and encumbrances.

Fund balance designations are established to represent that portion of net assets that are intended to be spent for certain purposes and differ from fund balance reserves in that they can be redirected and used for new spending if necessary. Unreserved fund balance represents the portion of net assets that is available at year-end for new spending.

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The combined ending fund balances of all governmental funds was \$155.3 million at December 31, 2004, an increase of \$28.1 million over the prior year. The \$28.1 million increase consists of a \$2.8 million decrease in the General Fund, a \$28.7 million increase in the Revenue Sharing Reserve Fund, a combined increase of \$1.2 million in the Special Revenue and Debt Service funds and a \$1.0 million increase in the Capital Projects funds.

The General Fund is the primary operating fund of the County. All revenues and expenditures are recorded in the General Fund unless otherwise required by statute, contractual agreement or policy. A year-to-year comparison of General Fund revenues by source is presented below.

**General Fund Revenue By Source**

Source	2004	2003	Increase (Decrease)
Taxes	\$ 108,024,702	\$ 103,904,729	\$ 4,119,973
Licenses and permits	397,172	391,814	5,358
Federal and State grants	14,756,398	21,874,509	(7,118,111)
Charges for services	26,754,510	28,746,761	(1,992,251)
Investment income	2,564,527	2,331,210	233,317
Admin charges to other funds	10,516,996	9,275,422	1,241,574
Fines and forfeitures	1,058,973	933,301	125,672
Other revenue	206,739	222,782	(16,043)
Transfers from other funds	19,668,740	9,655,000	10,013,740
	<u>\$ 183,948,757</u>	<u>\$ 177,335,528</u>	<u>\$ 6,613,229</u>

The \$4.1 million increase in property tax revenue is due primarily to a continued increase in taxable values throughout the County.

The \$7.1 million decrease in Federal and State grants can be attributed primarily to the elimination of revenue sharing payments from the State of Michigan as discussed previously.

The decrease in charges for services revenue of just under \$2.0 million is the result of a decrease in recording fee revenue generated by the Register of Deeds in 2004 due to a reduction in the number of mortgage refinancings processed during the year.

Transfers from other funds increased approximately \$10.0 million over the prior year, primarily as a result of a transfer from the Revenue Sharing Reserve Fund, as previously discussed.



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A year-to-year comparison of General Fund expenditures by function is presented below.

**General Fund Expenditures By Function**

Function	2004	2003	Increase (Decrease)
Legislative	\$ 1,958,277	\$ 1,833,491	\$ 124,786
Judicial	19,451,435	19,100,822	350,613
General government	48,848,120	45,923,613	2,924,507
Public safety	51,927,325	47,946,040	3,981,285
Health and welfare	775,974	677,726	98,248
Other	4,732,839	3,792,538	940,301
Capital outlay	722,119	749,272	(27,153)
Transfers to other funds	58,307,955	52,188,697	6,119,258
	<u>\$ 186,724,044</u>	<u>\$ 172,212,199</u>	<u>\$ 14,511,845</u>

The \$2.9 million increase in General Government expenditures represents a 6.3% increase, which is a result of increases in salaries and fringe benefit costs.

The \$4.0 million increase in Public Safety expenditures represents a 8.3% increase, which is a result of increases in salaries and fringe benefit costs at the Sheriff Department as well as additional positions added during the year as a result of expanded patrol contracts with local units of government in the County.

The \$6.1 million increase in transfers to other funds was caused primarily by increases in the subsidies to the Martha T. Berry Medical Care Facility and the Child Care Fund of \$1.8 million and \$2.5 million, respectively. The Martha T. Berry Medical Care Facility experienced a deficit of \$5.3 million exclusive of the General Fund contribution, compared to \$4.5 million in 2003. The increase of \$.8 million was due to decreases in Medicare and Medicaid revenue. The additional \$1.0 million contribution by the General Fund was necessary to reduce the operating loss of Martha T. Berry to a level that could be absorbed by existing fund equity. The increase in the contribution to the Child Care Fund was caused by an increase in the number of children placed in outside facilities, due in part to the construction of the new Juvenile Justice Center. The County is working to reduce the number of children in outside placement now that the new facility is operational.

The fund balances of the County's nonmajor governmental funds were approximately \$63.8 million at year-end, an increase of approximately \$2.1 million over the prior year. Of the \$63.8 million, \$35.5 million is reported in the capital projects funds, all of which is designated or restricted for use in the construction, remodeling, renovation and maintenance of new or existing facilities.

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**GENERAL FUND BUGETARY HIGHLIGHTS**

The budget for each fiscal year is adopted by the Board of Commissioners in December of the prior year and may be amended from time to time throughout the year to reflect changing operational demands.

A comparison of budgeted and actual revenues is presented below.

**General Fund Revenue Budget and Actual By Source**

Source	Budget		Actual	Variance
	Adopted	Final		
Taxes	\$ 109,370,508	\$ 109,370,508	\$ 108,024,702	\$ (1,345,806)
Licenses and permits	392,000	392,000	397,172	5,172
Federal and State grants	19,026,679	11,506,500	14,756,398	3,249,898
Charges for services	24,844,579	24,889,579	26,754,510	1,864,931
Investment income	3,638,000	3,638,000	2,564,527	(1,073,473)
Admin charges to other funds	9,399,561	9,583,954	10,516,996	933,042
Fines and forfeitures	890,100	890,100	1,058,973	168,873
Other revenue	24,150	41,150	206,739	165,589
Transfers from other funds	8,655,000	17,725,179	19,668,740	1,943,561
	<u>\$ 176,240,577</u>	<u>\$ 178,036,970</u>	<u>\$ 183,948,757</u>	<u>\$ 5,911,787</u>

The original and final revenue budgets of the General Fund for fiscal 2004 were \$176.2 million and \$178.0 million respectively, an increase of \$1.8 million of final over originally adopted. Approximately \$.2 million of the increase was caused by additional positions added in the Human Resources Department as a result of new hiring practices implemented by the County. The budget for revenue sharing was also increased by \$1.3 million as a result of a corresponding increase in the expenditure budget related to prisoner medical care. The budget for revenue sharing was subsequently reduced by \$9.0 million and reclassified as a transfer from other funds to account for the transfer from the Revenue Sharing Reserve Fund as required by Public Act 357. The net effect of these adjustments was a decrease of \$7.5 million in Federal and State grants.

Actual revenues exceeded budget in several areas for the year ended December 31, 2004. One of the more significant variances occurred in State and Federal Grants, where actual exceed budget by \$3.2 million, \$2.5 million of which was attributable to State Revenue Sharing. The amount of revenue sharing distributed to the County was based on the amount of sales tax collected by the State. It was one of the County's most vulnerable revenues and was eliminated by the State during 2004. Although actual 2004 State Revenue Sharing exceeded budget, it was approximately \$8.1 million less than 2003 actual due to the implementation of Public Act 357. Because of its discretionary nature, the County has historically established the budget for State Revenue Sharing at a conservative level.

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Charges for Services revenues exceeded budget by \$1.9 million, led by recording fees, which exceeded budget by approximately \$1.2 million as a result of mortgage refinancings in response to favorable mortgage interest rates throughout the year.

Investment revenue was approximately \$1.1 million under budget as a result of lower than expected market interest rates.

The \$1.9 million favorable variance in the Transfers from Other Funds category was due to a return of excess contributions made to Special Revenue Funds in prior years.

A comparison of budgeted and actual expenditures is presented below.

**General Fund Expenditures Budget and Actual By Level of Control**

Level of Control	Budget		Actual	Variance
	Adopted	Final		
Salaries and fringe benefits	\$ 103,771,429	\$ 104,013,556	\$ 96,968,705	\$ 7,044,851
Operating	35,983,940	37,096,542	30,562,006	6,534,536
Capital outlay - departmental	251,700	288,499	163,259	125,240
Capital outlay - nondepartmental	900,000	945,000	722,119	222,881
Transfers to other funds	65,069,023	65,530,304	58,307,955	7,222,349
	<u>\$ 205,976,092</u>	<u>\$ 207,873,901</u>	<u>\$ 186,724,044</u>	<u>\$ 21,149,857</u>

The original and final expenditure budgets of the General Fund for fiscal 2004 were \$206.0 million and \$207.8 million, respectively, an increase of \$1.8 million of final over originally adopted. The majority of this increase was caused by an increase in prisoner medical costs.

Actual General Fund expenditures were approximately \$21.2 million below budget. Of the total, \$7.0 million was in the area of salaries and fringe benefits, which can be attributed to vacant positions, employees not yet at their maximum salaries although budgets are established at position maximums and employees electing lower cost health care options. Another \$6.5 million favorable variance was realized in the area of operating expenses. Of this amount, \$1.7 million was realized in area of court appointed attorneys as a result of lowering the level of reserves established for fees incurred but not billed as of year-end. Another \$1.9 million favorable variance was experienced in the areas of utilities, building repairs and maintenance and equipment maintenance agreements.

The final budget includes \$65.5 million in transfers to other funds. Actual transfers were approximately \$58.3 million, resulting in a favorable variance of \$7.2 million, which is consistent with the prior year favorable variance of \$7.5 million. Budgeted transfers are maintained at conservative levels due to the uncertainty of outside revenue sources.

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In summary, General Fund expenditures exceeded revenues by \$2.8 million for the year ended December 31, 2004. Unreserved fund balance was \$62.4 million or 15.1% of the total 2005 County operating budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The County categorizes its capital assets in the Government-Wide Statement of Net Assets as follows: land, land improvements, buildings and improvements, machinery, equipment and vehicles and construction in progress. The County's investment in capital assets, net of accumulated depreciation, was \$157.5 million for governmental activities and \$2.6 million for business-type activities.

**Macomb County's Capital Assets**  
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 9,233,484	\$ 6,114,204	\$ -	\$ -	\$ 9,233,484	\$ 6,114,204
Land improvements	2,761,707	2,547,340	108,408	118,436	2,870,115	2,665,776
Buildings and improvements	116,026,766	81,448,356	1,941,386	2,090,902	117,968,152	83,539,258
Machinery, equipment and vehicles	16,039,387	10,121,857	413,445	364,417	16,452,832	10,486,274
Construction in progress	13,475,219	36,717,860	93,259	-	13,568,478	36,717,860
	<u>\$ 157,536,563</u>	<u>\$ 136,949,617</u>	<u>\$ 2,556,498</u>	<u>\$ 2,573,755</u>	<u>\$ 160,093,061</u>	<u>\$ 139,523,372</u>

Major capital asset activity during the year included the following:

- Construction continued on the Youth Home Addition and Renovation project. Approximately \$2.2 million was expended in 2004. Phase one of the project was completed in September 2004.
- Construction continued on the addition and renovation project at the Martha T. Berry Medical Care Facility. Approximately \$3.9 million was expended in 2004. The project is scheduled for a staggered completion. The first phase was completed in 2003 and the remainder is scheduled for completion in 2005.
- The County purchased a 100,000 square foot warehouse for \$5.1 million in 2004.
- The purchase of the final parcels of the Macomb Orchard Trail was finalized in 2004, at a cost of \$2.6 million.

Additional information regarding the County's capital assets can be found in the Note 3 to the basic financial statements.

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**Long-term debt.** The County's long-term debt was \$72.7 million at December 31, 2004, all of which related to governmental activities. All outstanding obligations are backed by the full faith and credit of the County. The components of the total liability are presented below.

**Macomb County's Long-Term Debt - Governmental Activities**

	Balance Beginning of Year	New Debt Issued	Debt Retired	Balance End of Year
General obligation bonds	\$ 56,385,000	\$ 19,350,000	\$ 2,985,000	\$ 72,750,000

The total debt of the primary government increased by \$16.4 million during the year, consisting of three new issues totaling \$19.4 million and \$3.0 million of debt retired.

The County issued \$10.0 million of general obligation bonds in April 2004 for the purpose of repairing or replacing structurally unsound bridges throughout the County. The County also issued \$5.1 million of general obligation bonds in April 2004 for the purpose of purchasing a 10,000 square foot warehouse and \$4.2 million of general obligation bonds in November 2004 for the purpose of constructing a new facility for the Office of the Public Works Commissioner.

The general obligation bonds of the County are rated **Aaa** by Moody's Investor Service and **AAA** by Standard & Poors, the highest rating awarded by each agency.

State statute limits the total amount of general obligation debt of the County to 10% of the assessed value of all property in the County. Assessed value is generally 50% of true market value. Management, however, believes that the taxable value of all property in the County is a more practical and conservative base on which to base the calculation of the County's debt limit. The assessed and taxable values of all property in the County as of December 31, 2004 was \$33.7 billion and \$26.9 billion, respectively. Therefore, the County's debt limitation was \$2.69 billion at year-end. The County's outstanding debt at December 31, 2004 of \$72.7 million was well below the limit based on either assessed or taxable value.

Additional information regarding the long-term obligations of the County may be found in the Note 4 to the basic financial statements.

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The following factors were considered when developing the 2005 budget.

- The State of Michigan continues to experience budgetary shortfalls as a result of a general slowdown in the National and State economies. As a result, the State of Michigan eliminated revenue sharing payments to the County in 2004 and established a County summer tax levy (P.A. 357), which will provide a substitute for State revenue sharing in Macomb County for approximately seven years.
- Property tax revenues are expected to increase 5.5% in 2005 due to the continued growth in new housing starts.
- Market interest rates are expected to improve slightly during 2005. The favorable trend in recording fees collected through mortgage refinancing and new construction is expected to continue in 2005.
- Health care costs are projected to increase 10-15%.
- New pension benefits and stock market declines over the past several years have significantly increased the County's funding requirement to its defined benefit pension plan over the past two years. This trend is expected to continue for the next several years.
- The advent of GASB Statements No. 43 and 45 related to postemployment health care benefits will require the County to disclose its funding progress relative to its Retiree Health Care Fund beginning in 2006. The County has been very proactive in recognizing its liability for retiree health care and began designating funds for this purpose in 1994. The County has contributed approximately \$68.0 million toward the unfunded liability since 1994. Investment earnings have increased the fund balance of the Retiree Health Care Fund to \$83.8 million as of December 31, 2004.
- Inflationary trends in the region compare favorably to national indices.
- The County remains in excellent financial condition as demonstrated by the financial statements and other schedules included in this report.

**CONTACTING THE COUNTY FINANCE DEPARTMENT**

This financial report is designed to provide the citizens, taxpayers, investors, creditors and others with a general overview of the finances of the County. Questions concerning any information contained in this report or requests for additional information should be addressed to the attention of the Finance Director at the following address: Macomb County Finance Department, 12<sup>th</sup> Floor County Building, Mt. Clemens, MI. 48043. Requests can also be made by phone at 586-469-5250.